



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

January 13, 2016

The Board of Directors
Economic Development Authority of the City of Norfolk, Virginia

Ladies and Gentlemen:

We have audited the financial statements of the Economic Development Authority of the City of Norfolk, Virginia (the Authority) as of and for the year ended June 30, 2015, and issued our report thereon under date of January 13, 2016. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, which have been prepared by management with the oversight of the Board of Directors, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the Board of Directors of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control. However, during the course of our audit, we identified a deficiency in internal control that we consider to be a significant deficiency. Our required communications to you in writing, under professional standards, of the significant deficiency in internal control identified during our audit was provided to you under separate cover.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Board of Directors in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.



The Board of Directors
Economic Development Authority of the City of Norfolk, Virginia
January 13, 2016
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Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Authority's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the Authority's financial statements, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the Authority are described in note 2 to the financial statements.

Qualitative Aspects of Accounting Practices

We have discussed with the Board of Directors and management our judgments about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Authority's accounting policies and their application, and the understandability and completeness of the Authority's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the Authority to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significant to the financial statements are because of the possibility that future events affecting them may differ markedly from management's current judgments. We determined that those charged with governance are informed about the process used by management in identifying and formulating particularly sensitive accounting estimates, risks of material misstatement in accounting estimates, the nature of significant assumptions, the decrease of subjectivity involved in the development of the assumptions, the relative materiality of the items being measured to the financial statements as a whole, indicators of possible management bias in developing accounting estimates, disclosure of estimation uncertainty, and about the basis for our conclusions regarding the reasonableness of



The Board of Directors
Economic Development Authority of the City of Norfolk, Virginia
January 13, 2016
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those estimates. We may also communicate the potential effect on the financial statements of significant risks and exposures and uncertainties, such as pending litigation, that are discussed in the financial statements.

Donation of Lake Wright Property

Management's estimates of the fair value of the land held for resale are based on appraisals performed by an independent appraiser, tax assessments, and other information.

We have evaluated key factors or assumptions used to develop significant accounting estimates, including possible management bias in developing the estimates, and determined that they were reasonable in relation to the financial statements taken as a whole.

Uncorrected and Corrected Misstatements

In connection with our audit of the Authority's financial statements, we identified and discussed with management a material financial statement misstatement, relating to the amounts received from the Wastewater Utility fund to help carry out the Authority's obligation with Simon Acquisition II for a portion of the property known as Lake Wright Golf Course, that was corrected by the Authority. If not corrected, the entry would have caused the Authority's financial statements to have been materially misstated. Attached is a copy of these adjustments and other immaterial corrected misstatements that have been discussed with management and corrected by the Authority. There were no uncorrected misstatements.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' report on the Authority's financial statements.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2015.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters the Board of Directors and management each year prior to our retention by the Board of Directors as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Material Written Communications

Attached to this letter please find a copy of the management representation letter provided to us during the audit.



The Board of Directors
Economic Development Authority of the City of Norfolk, Virginia
January 13, 2016
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Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and the Authority and persons in a financial reporting oversight role at the Authority and provide confirmations that we are independent accountants with respect to the Authority as of January 13, 2016.

We are not aware of any relationships between our firm and the Authority and persons in a financial reporting oversight role at the Authority that may reasonably be thought to bear on auditor independence.

Confirmation of Audit Independence

With respect to the Authority, we are independent accountants within the meaning of Rule 101 of the American Institute of Certified Public Accountants Code of Professional Ethics and related interpretation, and *Government Auditing Standards*, issued by the U.S. Government Accountability Office. As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

* * * * *

This letter to the Board of Directors is intended solely for the information and use of the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

ECONOMIC DEVELOPMENT AUTHORITY *of the City of Norfolk*

Board of Directors

Robert E. Garris, Jr., Chairman
Michael W. Lee, Vice Chairman
Kim Brown
B. Wayne Coleman
Jaeson E. Dandalides
Adrien Latta
James L. McDonnell
W. Craig Reilly
Ursula Rhodes
Jerry Robertson
Antonio L. Sisco

Officers

Executive Director
Peter Chapman
Secretary-Treasurer
Jared Chalk
Assistant Secretary-Treasurer
Dawn Ryan

January 13, 2016

KPMG LLP
440 Monticello Avenue, Suite 1900
Norfolk, VA 23510

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the Economic Development Authority of the City of Norfolk (the EDA) as of and for the year ended June 30, 2015, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the respective financial position, changes in financial position, and cash flows of the EDA in conformity with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 6, 2012, the Amendment for Renewal #1 dated May 6, 2013, the Amendment for Renewal #2 dated May 5, 2014, and the Amendment for Renewal #3 dated May 15, 2015, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
 - b. Additional information that you have requested from us for the purpose of the audit.

- c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of the meetings of EDA Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3. Except as disclosed to you in writing, there have been no:
 - a. Circumstances that have resulted in communications from the EDA's external legal counsel to the EDA reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the EDA or any agent thereof.
 - b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
- 4. There are no:
 - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
 - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.
 - e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
- 5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
- 6. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud" includes

misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

7. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the EDA's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
8. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
9. We have no knowledge of any fraud or suspected fraud affecting the EDA's financial statements involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the EDA's financial statements received in communications from employees, former employees, analysts, regulators, or others.
11. We have no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
12. We have no knowledge of any officer or member of governing body of the EDA, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
13. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

The term "related party" refers to government's related organizations, joint ventures, and jointly governed organizations, as defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended; elected and appointed officials of the government; its management; members of the immediate families of elected or

appointed officials of the government and its management; and other parties with which the government may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

- b. Guarantees, whether written or oral, under which the EDA is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements.
 - d. Agreements to repurchase assets previously sold, including sales with recourse.
 - e. Changes in accounting principle affecting consistency.
 - f. The existence of and transactions with joint ventures and other related organizations.
- 14. The EDA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
 - 15. The EDA has complied with all aspects of laws, regulations, contractual agreements, and grants that may affect the financial statements, including noncompliance.
 - 16. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the EDA. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
 - 17. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
 - 18. The MUCIPP loans and Virginia Symphony Loan II is considered to be collectable as of June 30, 2015 and no write down as of that date is considered necessary.
 - 19. Deposits and investment securities are properly classified and reported.
 - 20. The EDA is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. The amounts reported represent the EDA's best estimate of fair value of investments required to be reported under the Statement. The EDA also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

21. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
 - a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;
 - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
22. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
23. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
24. The EDA has no:
 - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
 - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.
 - c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
25. The EDA has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
26. Revenues are appropriately classified in the statement of activities.
27. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
28. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
29. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the EDA's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the

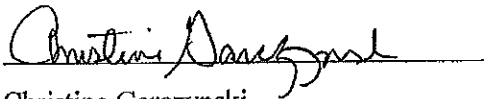
application of these policies and practices will be material to the financial statements in future periods.

30. The EDA has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
31. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
32. KPMG assisted management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we confirm that we have reviewed, approved, and accept responsibility for the financial statements and notes.

Further, we confirm that we are responsible for the fair presentation in the financial statements of the EDA, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

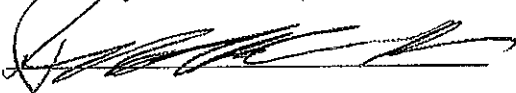
Very truly yours,

Economic Development Authority of the City of Norfolk, Virginia



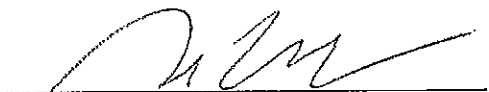
Christine Garczynski

Director of Finance – City of Norfolk



Peter Chapman

Executive Director – Economic Development Authority of the City of Norfolk



Jared Chalk

Secretary – Treasurer - Economic Development Authority of the City of Norfolk

KPMG notes there were no uncorrected audit misstatements

omatically populating the audit misstatements from the Tracker are provided in the "Instructions" tab.

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**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**

Financial Statements and Compliance Report

June 30, 2015

(With Independent Auditors' Reports Thereon)

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Economic Development Authority of the City of Norfolk, Virginia
Norfolk, Virginia:

Report on the Financial Statements

We have audited the accompanying statement of net position of the Economic Development Authority of the City of Norfolk, Virginia (the Authority) as of and for the year ended June 30, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Economic Development Authority of the City of Norfolk, Virginia as of June 30, 2015, and the respective changes in financial position, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
January 13, 2016

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**

Management Discussion and Analysis (unaudited)

June 30, 2015

The following discussion and analysis of the Economic Development Authority of the City of Norfolk, Virginia's (the Authority or the EDA) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2015.

Financial Highlights for Fiscal Year 2015

The Authority's financial statements are reported on the full accrual basis as required by U.S. generally accepted accounting principles (GAAP). On this basis, the Authority has total operating expenses of \$2,847,707 and total operating revenues of \$3,342,573.

Other financial highlights:

- At the close of the fiscal year, the Authority's total cash and cash equivalents was \$1,574,885.
- On April 29, 2014, the Authority issued a promissory note (the Note) for a loan of \$250,000 with 5.5% interest to the Virginia Symphony Orchestra Group (the Symphony). Repayment of Note, including interest was due on October 29, 2015. On October 30, 2015, the Note was amended and this new note modifies the payment schedule and extends the maturity date to September 1, 2020, as long as there is no event of default throughout the term of the loan, interest will be forgiven. The loan outstanding is \$250,000 as of June 30, 2015.
- On April 21, 2009, the City established the Major Urban Construction Impact Policy and Program (MUCIPP) to provide a fair and consistent method of assisting non-franchised businesses in districts directly affected by the City's major and/or extended construction work. The Authority became the pass-through vehicle responsible for receiving and approving applications, drawing the funds from the City, and distributing the funds to local businesses. The program provided grants and loans to qualifying local businesses. The City retains the risk of default for the outstanding loan and the Authority maintains a payable to the City for the future receipt of repayment. As of June 30, 2015, there is one MUCIPP loan outstanding totaling \$125,000. The interest free loan had a payment schedule with annual installments through fiscal year 2015. Failure by the entity to make the contractual payments caused a default. The Authority currently has judgments for the full loan amount and has discussed possible solutions for repayment of this debt with the entity. The Authority is seeking to gain approval for the forgiveness of the payable to the City.
- On December 14, 2014, to finance the purchase of the real estate from the J.C. Penney Corporation described in Note 4, the Authority entered into a promissory note to borrow \$2,500,000. The Authority is to pay this loan in full, plus any unpaid interest, on the maturity date of September 30, 2017. Interest is paid monthly commencing on January 12, 2015 at one-month LIBOR plus 2.5%. The interest rate as of June 30, 2015 was 2.62%. Interest expense on this note payable was \$39,933 for the year ended June 30, 2015. The loan is collateralized by a certificate of deposit and a negative pledge agreement on the property.

Basic Financial Statements

The statement of net position presents information on all assets and liabilities of the Authority, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**

Management Discussion and Analysis (unaudited)

June 30, 2015

giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The statement of cash flows identifies how cash and other financial assets (that can readily be converted to cash) flow in and out of the Authority.

The statement of cash flows, when taken together with the statement of net position and statement of revenues, expenses, and changes in net position, provides the reader a complete "snapshot" of the financial condition and results of operations of the Authority as of June 30, 2015, and for the year then ended.

Notes to financial statements are an integral part of the statements and should be read in conjunction with the financial statements and Management's Discussion and Analysis.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. At the close of the most recent fiscal year, the Authority's assets exceeded liabilities by \$22,637,725. The following table provides a summary of the Authority's net position as of June 30, 2015 and 2014:

Summary of Net Position

	<u>2015</u>	<u>2014</u>
Current assets	\$ 3,794,934	2,909,208
Capital assets	—	5,648
Loans receivable (less current portion)	250,000	376,763
Land and land improvements held for resale	22,304,976	19,745,000
Total assets	<u>\$ 26,349,910</u>	<u>23,036,619</u>
Current liabilities (excluding unearned revenue)	\$ 364,148	537,751
Unearned revenue	848,037	375,000
Noncurrent liabilities	2,500,000	—
Total liabilities	<u>\$ 3,712,185</u>	<u>912,751</u>
Net position:		
Net investment in capital assets	\$ —	254,194
Restricted	473,000	—
Unrestricted	22,164,725	21,871,674
Total net position	<u>\$ 22,637,725</u>	<u>22,125,868</u>

Overall, total net position increased by \$511,867 in fiscal year 2015. Current assets increased as a result of an increase in cash and cash equivalents primarily due to the \$848,037 received from the City related to the Lake Wright Force Main relocation funding from the City. Liabilities increased \$2,799,434 primarily due to the note for the purchase of the former J.C. Penney Building at Military Circle Mall described above.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**

Management Discussion and Analysis (unaudited)

June 30, 2015

The table below provides a summary of the changes in net position for the years ended June 30, 2015 and 2014.

Summary of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 3,342,573	2,867,910
Operating expenses	<u>2,847,707</u>	<u>3,127,665</u>
Operating income/(loss)	494,866	(259,755)
Nonoperating revenues	60,494	19,406,019
Nonoperating expenses	<u>(43,493)</u>	<u>(354)</u>
Change in net position	511,867	19,145,910
Net position, beginning	<u>22,125,858</u>	<u>2,979,948</u>
Net position, ending	<u>\$ 22,637,725</u>	<u>22,125,858</u>

The \$474,663 increase in operating revenue from fiscal year 2014 to fiscal year 2015 was primarily derived from a new revenue stream of special cigarette tax funds (\$473,000) provided by the City of Norfolk. The cigarette tax funds were earmarked to support economic development activities. The \$279,958 decrease in operating expenses from fiscal year 2014 to fiscal year 2015 is related to a reduction in current year department operational expenses (marketing, travel, annual subscriptions/memberships) coupled with certain nonrecurring expenditures related to the Lake Wright Golf Course project that were incurred during the 2014 fiscal year. Nonoperating revenues in fiscal year 2014 reflects the one time source of revenue related to the transfer of the Lake Wright Golf Course from the Norfolk Redevelopment and Housing Authority (NRHA) to the EDA at a value of \$19,400,000.

Future Outlook

The Authority continues to be successful in its purpose of helping to promote economic activity in Norfolk and grow the tax base. The City continues to see new capital investment and business expansion, and the Authority will continue to support the City's economic development plans and programs.

The Lake Wright Golf Course project will gain momentum in the first quarter of 2016. The sale of a portion of the property for the Simon's Outlet development is scheduled to take place in March 2016. Proceeds from that sale will be returned to the City. Relative to the project, the City provided funds for the Force Main Relocation work that is required at the site in fiscal year 2015. That work will begin in January 2016, so expenses related to that project have not yet been incurred at the time of the audit. The groundbreaking and construction of the outlet mall is scheduled to begin in March 2016.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**

Management Discussion and Analysis (unaudited)

June 30, 2015

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, clients and taxpayers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be made directly to:

Jared Chalk, Secretary-Treasurer
500 East Main Street, Suite 1500
Norfolk, VA 23510-2206
Telephone (757) 664-4105

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA
(A Component Unit of the City of Norfolk, Virginia)**

Statement of Net Position

June 30, 2015

Assets

Current assets:

Cash and cash equivalents (note 3)	\$ 1,574,885
Investments (note 3)	2,092,592
Accounts receivable	1,352
Current portion of MUCIPP program receivable (notes 6 and 11)	125,000
Prepaid expense	<u>1,105</u>
Total current assets	3,794,934

Noncurrent assets:

Capital assets, net of accumulated depreciation (note 5)	—
Virginia Symphony receivable (note 6)	250,000
Land and land improvements held for resale (note 4)	<u>22,304,976</u>
Total assets	<u><u>\$ 26,349,910</u></u>

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 33,074
Due to the Norfolk Commission on the Arts and Humanities	48,596
Due to City of Norfolk under MUCIPP program (notes 6 and 11)	282,478
Unearned revenue	<u>848,037</u>
Total current liabilities	1,212,185

Noncurrent liabilities:

Note payable (note 7)	<u>2,500,000</u>
Total liabilities	<u><u>\$ 3,712,185</u></u>

Net Position

Restricted	\$ 473,000
Unrestricted	<u>22,164,725</u>
Total net position	<u><u>\$ 22,637,725</u></u>

See accompanying notes to financial statements.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA
(A Component Unit of the City of Norfolk, Virginia)**

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

Operating revenues:	
City of Norfolk, incentive grants	\$ 2,851,021
Administrative fees	491,552
Total operating revenues	<u>3,342,573</u>
Operating expenses:	
Business development expense	2,479,389
Administrative fees paid to other authorities	111,498
Contributions	104,000
Other	50,230
Professional fees	53,815
Promotion	37,756
Travel	8,931
Depreciation	2,088
Total operating expenses	<u>2,847,707</u>
Operating income	<u>494,866</u>
Nonoperating revenues (expenses):	
Other income	53,505
Interest income	6,989
Loss on disposal of capital assets	(3,560)
Interest expense	(39,933)
Total nonoperating income, net	<u>17,001</u>
Change in net position	511,867
Net position:	
Beginning	<u>22,125,858</u>
Ending	<u>\$ 22,637,725</u>

See accompanying notes to financial statements.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA
(A Component Unit of the City of Norfolk, Virginia)**

Statement of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:	
Receipts from customers	\$ 502,029
Receipts for incentive grants, net of incentive grant to city	2,476,021
Receipts for grants and other	848,037
Payments to other authorities	(111,498)
Payments to developers	(104,000)
Payments of incentive grants	(2,457,783)
Payments to suppliers for goods and services	(286,371)
Net cash used in operating activities	<u>866,435</u>
Cash flows from capital and related financing activities:	
Proceeds from loan to purchase JC Penney property	2,500,000
Interest paid	(39,933)
Purchase of JC Penney property	(2,559,976)
Net cash provided by capital and related financing activities	<u>(99,909)</u>
Cash flows from investing activities:	
Interest received	2,891
Other receipts	439
Receipt of payments on loan receivable	75,000
Net cash received by investing activities	<u>78,330</u>
Net increase in cash and cash equivalents	<u>844,856</u>
Cash and cash equivalents:	
Beginning	<u>730,029</u>
Ending	<u>\$ 1,574,885</u>
Reconciliation of operating income from operations to net cash used in operating activities:	
Operating income	\$ 494,866
Adjustment to reconcile operating income to net cash used in operating activities:	
Depreciation	2,088
Increase in:	
Unearned revenue	473,037
Decrease in:	
Prepaid expense	4,504
Accounts receivable	10,477
Accounts payable and accrued expenses	(38,775)
Due to the Norfolk Commission on the Arts and Humanities	(79,762)
Net cash used in operating activities	<u>\$ 866,435</u>
Noncash investing activity:	
Interest payable forgiven	<u>\$ 53,066</u>

See accompanying notes to financial statements.

Economic Development Authority of the City of Norfolk, Virginia
(A Component Unit of the City of Norfolk, Virginia)

Notes to Financial Statements

June 30, 2015

(1) Nature of Activities

The Economic Development Authority of the City of Norfolk, Virginia (the Authority) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City of Norfolk, Virginia (the City) in 1972, pursuant to the provisions of the Industrial Development and Revenue Act of the Commonwealth of Virginia (Title 15.2, Chapter 49, Section 15.2-4900, et. seq., of the Code of Virginia (1950), as amended). It is authorized to acquire, own, lease and dispose of properties, promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

Effective July 1, 2014, the Authority was determined to be a component unit of the City of Norfolk in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*. Component units are legally separate entities for which a primary government is financially accountable. As a discretely presented component unit of the City, the information included in these financial statements is included in the comprehensive annual financial report of the City.

The Authority is authorized to issue revenue bonds for the purpose of acquiring and constructing facilities. Liability under the bonds is assumed by the enterprises for which facilities are constructed. The revenue bonds are not deemed to constitute a debt or pledge of faith and credit of the Commonwealth of Virginia or any political subdivision thereof. The bonds are payable solely from revenues generated from the sale or lease of the facilities constructed or acquired. Although the Authority provides a conduit to execute such transactions, it retains neither the benefits of asset ownership nor the liability for bond liquidation. Accordingly, the Authority does not recognize in its financial statements associated assets, liabilities, rental income or interest expense associated with the bond issuances. The Authority has issued 25 bonds that are outstanding as of June 30, 2015, with a total balance of \$621,228,566 maturing through fiscal year 2036. All of these bonds are believed to be tax-exempt and are issued for the benefit of nonprofit organizations, manufacturing companies or enterprise-zone businesses (as defined in Sections 1397(c) and 1394(b)(3) of the Internal Revenue Code of 1986, as amended).

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting as required by U.S. generally accepted accounting principles (GAAP).

The Authority is accounted for as a proprietary fund type using the accrual basis of accounting, whereby income is recognized when earned and expenses are recorded when incurred.

(b) Cash and Cash Equivalents

Cash includes cash on hand and cash deposited with financial institutions. At June 30, 2015, there was \$1,574,885 in cash and cash equivalents, including \$260,540 held in the Local Government Investment Pool (LGIP). The funds held in the LGIP pool are considered cash, since it has the same characteristics as a demand deposit account (note 3).

Economic Development Authority of the City of Norfolk, Virginia
(A Component Unit of the City of Norfolk, Virginia)

Notes to Financial Statements

June 30, 2015

(c) Short-Term Investments

The Authority considers all funds with an original maturity of greater than three months, but less than one year, to be short-term investments. At June 30, 2015, the Authority held a six-month certificate of deposit yielding 0.12% in the amount of \$2,092,592 (note 3).

(d) Land and Land Improvements Held for Resale

Land and land improvements held for resale are recorded at the lower of cost or estimated fair value. Cost is determined by acquisition price, if purchased, or at estimated fair value at the date of contribution, if contributed. Subsequent land improvements are added to land and land improvements held for sale. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties that is other than in a forced or liquidation sale.

(e) Unearned revenue

Unearned revenue consists of funding received from the City to be used to cover costs related to the development of the Lake Wright Golf Course. The Authority will provide these funds to the purchaser of the property as construction occurs. Because the funds will be used for infrastructure improvements, the City will retain title to the assets. (See note 4)

(f) Grant revenue

Grant revenue consists of incentive grants received from the City and paid to companies as performance based grants in business attraction, expansion and retention efforts. The EDA serves as a pass through for these grants.

(g) Administrative Fees

Administrative fees are collected by the Authority while bonds are outstanding. Such fees are included in revenue when earned. Fees are often collected in advance and deferred until earned.

(h) Administrative Support

The City provides administrative support for the Authority. Expenditures associated with these services include salaries for employees and rent expense on the office. This support is treated as expenditures by the City and not by the Authority. However, these costs are offset by promotional and marketing activity costs paid by the Authority that benefit the City.

(i) Income Taxes

The Authority is exempt from income taxes as it is a political subdivision of the State of Virginia; accordingly, no provision for income taxes is reflected in the accompanying financial statements.

Economic Development Authority of the City of Norfolk, Virginia
(A Component Unit of the City of Norfolk, Virginia)

Notes to Financial Statements

June 30, 2015

(j) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(3) Cash and Cash Equivalents

All cash and investments of the Authority are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2 4400 et. seq. of the Code of Virginia (the Act) or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amount insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loans institutions are required to collateralize 100% of the deposits in excess of the FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Of the \$3,667,477 in cash and short-term investments, \$548,596 is covered by the FDIC at several financial institutions or collateralized under the Act. The cash equivalents of \$260,540 held by the LGIP and the certificates of deposit of \$2,092,592 are collateralized under the Act. As such, there is no significant credit or custodial risk associated with these investments.

The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia.

(4) Land and Land Improvements Held for Resale

On December 22, 2014, the Authority purchased real estate from J.C. Penney Corporation, Inc. consisting of a tract of land and improvements on approximately 16 acres at The Gallery at Military Circle for \$2,500,000. Closing costs and legal fees paid by the Authority related to the purchase were \$59,976. These fees were capitalized and added to land and land improvements held for resale.

On October 18, 2013, the Norfolk Redevelopment and Housing Authority (NRHA) donated property including the Lake Wright Golf Course to the Authority with an estimated fair value of \$19,400,000, as determined by an independent appraiser. The Authority entered into an agreement on November 12, 2013, amended on July 1, 2014, to sell a portion of that property to Simon Acquisition II, LLC (Simon) and entered into a second agreement on August 28, 2014, to sell the remaining property to Northampton Development, L.L.C. These agreements were not consummated as of June 30, 2015. As a stipulation of closing on the purchase of the property, the Authority entered into the Force Main Relocation Agreement with Simon on July 23, 2014. The agreement states that the force main relocation will be performed prior to closing. Simon is responsible for selecting a contractor and entering into a contract for the force main relocation. The Authority is to make payments, not more than monthly, to Simon for the work performed related to the force main relocation. Written payment requests are required to be submitted by Simon before payment can be disbursed. The Authority has certified that they have sufficient funds on-hand, for the payment of the force relocation. The \$848,037 reserve was provided by the City and is included in unearned revenue at June 30, 2015.

Economic Development Authority of the City of Norfolk, Virginia
(A Component Unit of the City of Norfolk, Virginia)

Notes to Financial Statements

June 30, 2015

Land and land improvements held for resale also includes three acres which are recorded at approximately \$115,000 per acre, which represents the cost basis of two acres and an amount below the original cost basis of the third.

(5) Capital Assets

	Beginning Balance	Additions	Retirements	Ending Balance
Equipment	\$ 20,090	\$ -	\$ (13,677)	\$ 6,413
Accumulated depreciation	(14,442)	(2,088)	10,117	(6,413)
Net capital assets	<u>\$ 5,648</u>	<u>\$ (2,088)</u>	<u>\$ (3,560)</u>	<u>\$ -</u>

(6) Loans Receivable

On April 29, 2014, the Authority issued a promissory note (the Note) for a loan of \$250,000 with 5.5% interest to the Virginia Symphony Orchestra Group (the Symphony), which was due in full, including interest, on October 29, 2015. On October 30, 2015, the Note was amended (see note 12). The loan outstanding is \$250,000 as of June 30, 2015.

On April 21, 2009, the City established the Major Urban Construction Impact Policy and Program (MUCIPP) to provide a fair and consistent method of assisting non-franchised businesses in districts directly affected by the City's major and/or extended construction work. The program provides grants and loans to qualifying local businesses. The Authority became the pass-through vehicle responsible for receiving and approving applications, drawing the funds from the City, and distributing the funds to local businesses. The City retains the risk of default for the outstanding loans and the Authority maintains a payable to the City for the future receipt of repayment. As of June 30, 2015, there are two MUCIPP loan outstanding with the same entity, totaling \$125,000. The interest free loans were payable in annual installments that began in fiscal year 2012 and ran through fiscal year 2015. Failure by the entity to make the contractual payments caused a default. The Authority currently has judgments for the full loan amount and has discussed possible solutions for repayment of this debt with the entity.

(7) Note Payable

On December 14, 2014, the Authority entered into a promissory note to borrow \$2,500,000 to finance the purchase of the real estate from the J.C. Penney Corporation (see note 4). The Authority is to repay this loan in full, plus any unpaid interest, on the maturity date of September 30, 2017. Interest is to be paid monthly commencing on January 12, 2015, at one-month LIBOR plus 2.5%. The interest rate as of June 30, 2015 was 2.62%. The loan is collateralized by a certificate of deposit and a negative pledge agreement.

Economic Development Authority of the City of Norfolk, Virginia
(A Component Unit of the City of Norfolk, Virginia)

Notes to Financial Statements

June 30, 2015

Future principal and interest payments required under the note agreement for the contractual life of the loan are as follows:

	<u>Principal</u>		<u>Interest</u>
2016	\$ -	\$	65,500
2017	-		65,500
2018	2,500,000		16,375
Total	\$ <u>2,500,000</u>	\$	<u>147,375</u>

(8) Restricted Net Position from City of Norfolk Grants

Restricted net position of \$473,000 relates to a cooperation agreement with the City with the funds to be used for business expansion, retention and attraction efforts.

(9) Other Income

At June 30, 2015, other income was comprised of the following:

Accrued interest no longer requiring repayment	\$ 53,066
Bond sharing fee	<u>439</u>
Total other income	\$ <u>53,505</u>

(10) Risk Management

The Authority is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors' and officers' liability. The Authority's coverage is provided through the City's combination of purchased insurance policies and self-insurance plans.

(11) Related Party Transactions

The Authority receives pass-through funds from the City in order to make development grants and loans under programs, including the MUCIPP loan program, that are administered by the Authority on behalf of the City. In addition, the Authority collects and remits to the City all loan payments from borrowers in the MUCIPP.

Economic Development Authority of the City of Norfolk, Virginia
(A Component Unit of the City of Norfolk, Virginia)

Notes to Financial Statements

June 30, 2015

(12) Subsequent Events

On October 30, 2015, the Authority amended certain key terms of the Note due from the Symphony. The maturity date was extended from October 29, 2015 to September 1, 2020. A payment schedule was established requiring payment to be made as follows: (i) \$25,000 on November 1, 2015; (ii) \$35,000 on September 1, 2016; (iii) three equal annual installments of \$50,000 from September 1, 2017 through September 1, 2019; and (iv) payment of the entire remaining indebtedness on the maturity date. In addition, payment of the accrued interest shall be waived at the maturity date so long as no event of default as provided in the Note agreement has occurred between October 30, 2015 and the maturity date.

On December 15, 2015, the City issued an ordinance approving the agreement between and among the Authority, Lake Wright, Inc., CXA 16 Corporation, Lake Wright II, and the City pertaining to the public road to be constructed at Lake Wright. This agreement stipulates that as part of its construction of the public road, the Authority shall construct a new paved access drive to the Hotel Property. The agreement has not yet been consummated.

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Directors
Economic Development Authority of the City of Norfolk, Virginia
Norfolk, Virginia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Economic Development Authority of the City of Norfolk (the Authority), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 13, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (2015-01).



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Specifications in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
January 13, 2016

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**

Schedule of Findings and Responses

June 30, 2015

Significant Deficiency 2015-01 – Controls over Proper Recording of Funds Provided by the Wastewater Utility Fund

Observation

The Economic Development Authority of the City of Norfolk (the Authority) did not properly account for the funds that were provided by the Wastewater Utility fund, an enterprise fund of the City of Norfolk (the City), to carry out its obligation with Simon Acquisition II, for a portion of the property known as Lake Wright Golf Course on Northampton Boulevard. The Authority recognized the funds as revenue rather than deferring the amount until the construction was performed.

Context

Due to the value of the amounts received from the Wastewater Utility fund and its impact on the Authority's financial statements, this finding represents a significant deficiency in the Authority's internal control over financial reporting relating to controls over the proper recording of significant and unusual transactions.

Perspective

The value of the transaction was approximately \$848 thousand, representing approximately 25% of revenue and 4% of net position.

Recommendation

The Authority should enhance its policies and controls over the accounting for significant and unusual transactions. Policies should be enhanced to ensure the personnel reviewing the accounting have a detailed understanding of the transactions that occurred during the year to ensure all significant and unusual transactions are identified and properly recorded in accordance with applicable accounting standards in a timely manner.

Management's Response

Management agrees with the finding and has implemented a process to ensure that any future transfer of significant City funding is properly accounted for. In the future, funds that are transferred to the Authority from the City will be communicated to the Department of Finance. Together the Authority and the Department of Finance will work together to ensure all significant and unusual transactions are identified, communicated and properly recorded in accordance with applicable accounting standards in a timely manner.